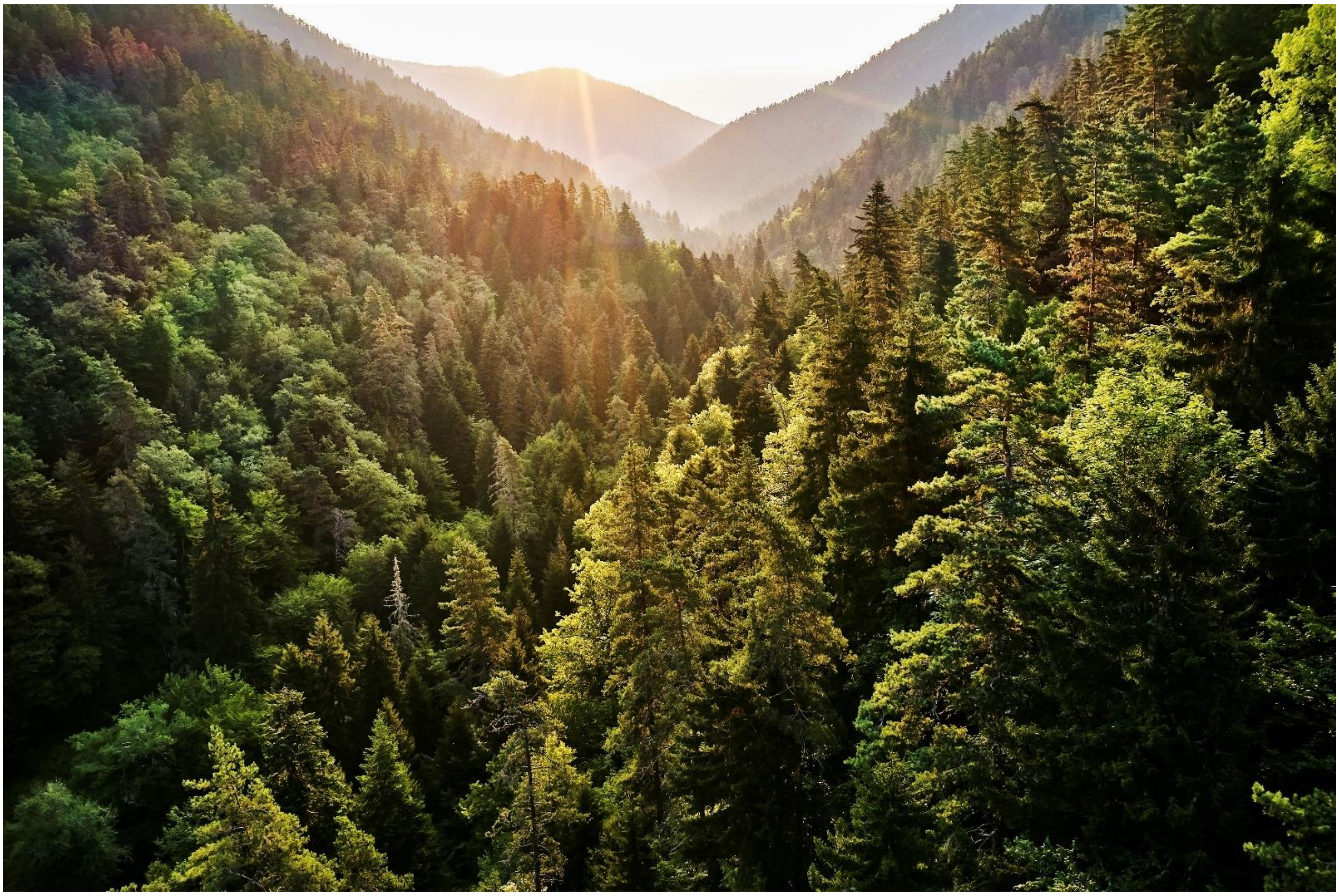
AXA IM PRIME
Hedge Fund Strategy Overview
Q3 2024



Hedge Fund Strategy Overview

Strategy Outlook Dashboard

Strategy	Q1-23	Q2-23	Q3-23	Q4-23	Q1-24	Q2-24	Q3-24
Event Driven	Neutral	Neutral	Neutral	Positive	Positive	Positive	Positive
Quantitative	Positive	Positive	Positive	Positive	Positive	Positive	Positive
Stock Picking	Positive	Positive	Positive	Positive	Positive	Positive	Positive
Multi-Strategy	Positive	Positive	Positive	Neutral	Neutral	Neutral	Neutral
Global Macro	Positive	Positive	Positive	Positive	Positive	Positive	Positive
Managed Futures	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral
Fixed Income Arbitrage	Positive	Positive	Positive	Positive	Positive	Positive	Positive
Convertibles Arbitrage	Positive	Positive	Positive	Positive	Positive	Positive	Positive
Credit/Distressed	Positive	Positive	Positive	Positive	Positive	Positive	Positive

Hedge Fund Strategy Overview

Event Driven

Definition

Event Driven funds aim to profit from significant events affecting a company where the uncertainty regarding the outcome creates an opportunity. They generally combine long and short positions across all asset classes they view to be mispriced, often in an arbitrage type trade.

Approaches are split between those who try to predict events and those that only get involved once events are announced, such as mergers and corporate actions. Once the team has predicted the outcome of the event and has determined an investment horizon, they analyse the securities available and select the best tool to profit, usually ranging across credit and equity. At the same time, they consider the potential risks, in terms of: volatility, liquidity, market and sector risks. Usually, the most significant risk is the potential of the event not happening. Finally, they must determine how to close the position, and the probability of each of the possible outcomes.

Sub-Strategies

Merger Arbitrage

Merger Arbitrage strategies exploit inefficiencies in merger transactions by capturing the spread between the offered price and the traded price of a given security being acquired. The spread reflects the risk of the deal not going through.

Key success factors include the ability to assess deal risk, trading around the spread, properly working out the hedging ratio for complex transactions, and using options as a return enhancer or in order to mitigate risk. The best environment for the strategy is one with plenty of M&A deals, low deal breaks and wide spreads which is driven by interest rates levels, riskiness of deals and liquidity

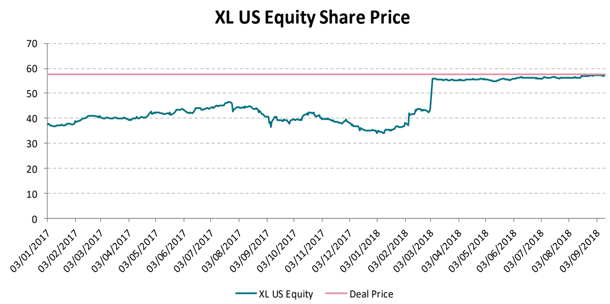
Equity Special Situations

These funds target targeting companies involved in actions such as corporate transactions, management changes, share buy backs, special dividends or restructurings. Funds will take positions based upon announced and pre-announced events and some managers may also become activist, engaging with companies to encourage catalysts. The strategy works best in benign equity markets with ample liquidity.

Distressed Securities

Funds in this space invest in companies facing financial or operational issues such as bankruptcy or capital restructurings. These securities tend to trade below their intrinsic value, creating an opportunity for managers who combine fundamental analysis of the company with their deep understanding of the restructuring or bankruptcy process to determine whether a distressed company is a worthwhile investment.

Trade example



Source: Bloomberg 09/03/18

AXA made an offer to acquire XL in March 2018. The deal was seen by the market as being likely to go through and so XL's share price jumped to near to the deal price following the announcement. Merger arbitrage funds were able to take advantage of the closing of the spread by analysing the likelihood of the deal closing and taking a position accordingly. Although the spread was relatively small, funds used leverage to amplify returns

Key Risks

Deal breaks: managers, especially merger arbitrage specialists, are exposed to confirmed deals collapsing for unexpected reasons.

Rival event: catalysts can be rendered irrelevant by a different catalyst, causing spreads to move unpredictably.

Market beta: although usually event trades have very reduced beta, in times of market stress there can be a lack of buyers and higher beta.

Investment Managers

Prime

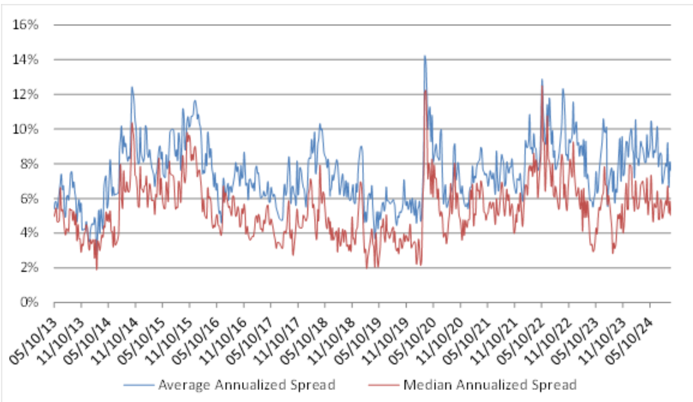
Hedge Fund Strategy Overview

Event Driven

Q3 Performance Drivers

- The HFRI Event Driven TR Index was up +2.6% for the quarter bringing it to +3.9% YTD.
- The HFRI Merger Arbitrage Index was up +2.5% for the quarter bringing it to +-0.9% YTD.
- The HFRI Special Situations Index was up +2.6% for the quarter bringing it to +4.2% YTD.
- Event strategies performed well during the quarter, helped by the positive backdrop for global equities.
- Global deal flow picked up in Q3 with volumes of $1.15tn (compared to $1.02tn in Q2) bringing the total to $3.08tn YTD. North America accounted for approx. half of activity.
- Notable deal flow included Mars's bid for Kellanova ($36bn), Couche-Tard buying Seven & I ($47bn) and Capital One's bid for Discover ($35bn).
- There was continuing volatility around Nippon Steel's bid for US Steel, with President Biden affirming his intention to block the deal in early September. A last minute appeal by the governor of Pennsylvania has meant a decision will not happen until post election, leaving the door to it closing ajar.
- The Equity IPO market showed a modest uptick in Q3 but remained slow with 405 new issues raising $26bn, according to Bloomberg ($77bn YTD). Secondary activity was resilient, with 1,979 deals raising $111bn.

Average Deal Spread (0-30%)



Source: UBS 10/10/24

Outlook

- Higher equity markets pushed and tighter corporate credit spreads continue to provide a supportive environment for corporate deal flow.
- The Federal Reserve cut interest rates, following the ECB and BoE, further lowering the cost of capital with positive implications for merger activity.
- However uncertainty over the US election has dampened enthusiasm for deal-making and we anticipate a pause until the outcome is known.
- This was reflected in the CEO Confidence Index which softened from 7.0 to 6.4, bringing it in line with its average of the L3Y.
- The continuing flow of mega-deals in Q3 points to a resumption of the trend once the election has happened.
- Take-private deals remain a potential area of activity as PE firms look to deploy dry powder.
- Despite volatility caused by political intervention in the Nippon / US Steel deal, overall merger spreads contracted to 7% – in line with the long-term average. With a lower risk-free rate at 4.75% this implies the strategy offers low-teens returns.
- IPO activity is picking up from the cyclical lows. With US elections in Q4, activity is expected to slow in the short term, but investment banks report increased levels of inquiry pointing to a stronger new issue calendar in 2025.
- Secondary and Follow-On deal flow remains robust, annualizing $490bn, 15% up on 2023. This remains an important contributor to returns going forward, as companies raise capital to finance expansion and acquisitions.

Rating: Positive

Hedge Fund Strategy Overview

Quantitative

Definition

Quantitative Equity Market Neutral funds use systematic processes in order to build portfolios of long and short equity positions in equal proportions.

Returns can be driven by statistical, factor or fundamental analysis, with the aim to isolate intended risk factors from market beta. This can take the form of tight pair trades or broader longs and shorts that are uncorrelated. Positions are often an amalgamation of multiple alpha signals.

Leverage tends to be an important factor as alpha can be low on an absolute basis, leading to highly diversified portfolios. Additionally, there is often the need for extra hedging in order to ensure that all unintended risks are eliminated.

Sub-Strategies

Multi-factor Quantitative Equity Market Neutral:

This system uses a series of style factors to analyze and predict stock movements. Some of the most common factors used are Value, Growth, Quality, and Momentum. Funds may look to allocate statically across these factors or to combine style factors into an overall alpha signal. Additionally, managers will generate their own, proprietary, style factors based on either statistical or fundamental drivers.

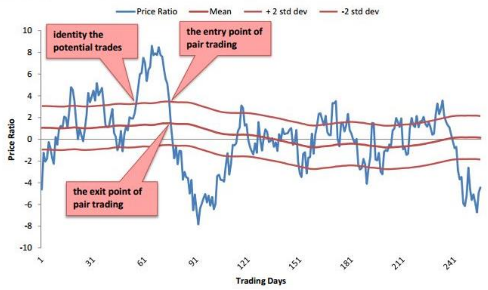
This model usually involves significant risk management to ensure that hedges are correctly positioned to strip out beta and highlight alpha signals. These models can combine different time horizons to enhance the alpha signals.

Statistical Arbitrage

This system uses statistical relationships between stocks to generate trades. Usually this takes the form of pair trading based on the relationship between two stocks or a basket of stocks. Usually, analysis is built solely on price action and involves some form of mean reversion or break-out analysis.

These strategies are designed to be run very tightly within pre-defined pairs or baskets so less hedging is needed. The alpha signals can be limited in absolute size and significant leverage is required.

Trade Example



Source: AXA IM PRIME 01/07/24

In this example we see an example of a pair trade based on price ratios. Here, alpha signals are driven by longer term rolling price ratios combined with standard deviation bands. When the price ratio gets outside of the expected bands, a signal is generated. The other consideration for this trade is momentum of the spread; trades are only entered when a trend has been established as moving back to the mean.

Key Risks

Model deterioration: over time models produce less alpha as competitors discover the opportunity.

Transaction costs: some models may rely on marginal gains and frequent trading, if spreads widen or costs rise alpha can be wiped out.

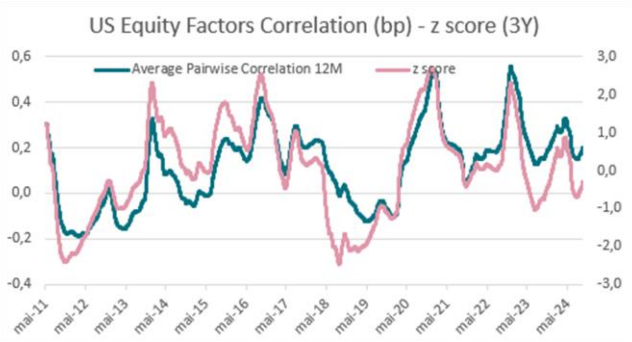
Crowding: deleveraging can have a significant impact, especially those with reactive risk management.

Hedge Fund Strategy Outlook

Quantitative

Q3 Performance Drivers

- The HFRI Equity Market Neutral Index was up +1.2% in Q3 and +7.5% YTD.
- Equity factors experienced a reversal over Q3 with Quality and Value up +2.1% and +1% while Momentum and Size went down by -5.7% and -3.8%. Value is still the only factor down for the year at -5.3% while Momentum remains the best performing factor at +9.1%
- Short Term stat arb strategies performed best during the vol spike in August. Vol expansion is the best environment from these strategies. While medium term cross sectional multi factor strategies captured the breadth of dispersion with strong performance from US and Europe.
- The September macro shift in China created a significant beta squeeze in China which hurt concentrated managers with a significant momentum reversal. On the other hand, value strategies benefited from a large rerating.
- Our China fund generated solid gains over Q3. Sentiment signals benefited from increased retail investors' appetite as helped by foreign outflows abating.



Source Bloomberg data, AXA IM PRIME calculation 17/10/24

Outlook

- Elevated stock dispersion and factor correlation at the lower end of recent years should continue to support cross sectional multifactor quantitative models, while stat arb strategies could benefit from an elevated level of uncertainty.
- China could benefit from the recent stimulative announcements with a potential for improved liquidity and institutional flows. This would be a supportive environment stock picking opportunities.
- The Chinese market continues to offer unique features including:
  - Retail investors participation has trended down from over 80% to 65% of volume but remains twice the level of DM equity markets. This is leading to behavioral anomalies that can be harvested through Technical models
  - High level of idiosyncratic opportunities and elevated dispersion
  - Low correlation with DM equities
- Our preference goes to diversified QEMN funds which can benefit from a diversified stream of uncorrelated strategies over various investment horizons (statistical arbitrage to fundamental models) and across multi asset classes.
- Innovation in QEMN has led to the emergence of pure Machine Learning funds that have the potential to identify complex relationships in Financial Markets. Dispersion in this group of managers has increased making it harder to identify sustainable opportunities.

Rating : Positive

Hedge Fund Strategy Overview

Stock Picking

Definition

Discretionary Equity Long/Short funds look to take advantage in movements in the equity markets by taking long and short positions in individual stocks. Typically decisions are made based on fundamental work undertaken by analysts and portfolio managers.

Funds in this space can have varying beta exposure to market, and that exposure can be relatively static or vary considerably. Typically, one can expect leverage to be inversely proportional to net exposure. Some managers are also more concerned with hedging out style, country and sector exposure than others. Investment time horizons can vary greatly, whilst some managers are also active in trading around positions frequently.

Funds can usually be split into a number of broad investment styles. Value managers look for mispriced assets and liabilities. Growth managers look for mispriced growth and potential growth. Momentum managers look for improving or deteriorating trends, usually in earnings. GARP (Growth At a Reasonable Price) managers try to combine value and growth strategies. Company financial accounts and earnings statements are usually the key areas that managers focus on, although there can be an element of technical analysis to highlight entry and exit points.

Sub-Strategies

Trading

Some managers invest based mostly on price action, flows and perhaps only a surface level knowledge of the underlying company. Turnover tends to be high, with tight stop losses and an overall opportunistic approach to investing. Additionally, gross and net can be very variable, driven by the day-to-day opportunity set.

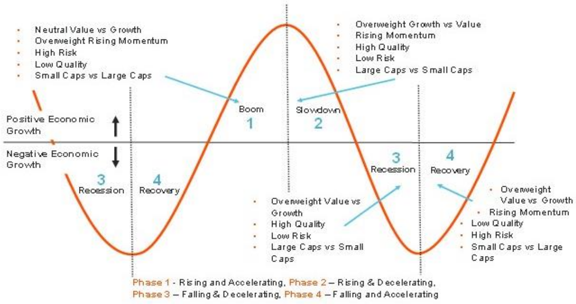
Earnings Predictions

Some managers are focused on correctly predicting earnings surprise, either positive or negative. This tends to mean that their investment time horizon is until quarter end, at which point they have an event, the earnings announcement, that either confirms or refutes their investment thesis. In practice they can hold positions over multiple quarters, but they will re-underwrite each time.

Buy and Hold

Some managers look to undertake significant due diligence on a company before investing in a stock, with the aim of holding on to the position over a multi-year time horizon. Typically, these managers are more agnostic to short term "noise" such as style factors, sector and country biases, and beta exposures. Typically, they expect returns to be driven by a combination of earnings enhancement and, more importantly, multiple re-rating as the company realizes the potential they see.

Trade Example



Source: Source: BofAML European Quant Strategy | Backtesting period from Dec 1992 to Dec 2003. Actual Performance Jan 2004 to Dec 2010.

This chart shows how difference style factors can drive stock prices at different points in a market cycle.

Key Risks

Beta Risk: Managers in this space can be heavily exposed to style, country, sector and market risks

Financial risk: Risk derived from the financial position of a company and its capital structure. This could include liquidity and credit risk, inconsistent earnings or high levels of debt.

Business risk: Internal issues effecting the efficiency of a firm as well as poor management and procedures can have a great impact on the price of a firm's shares.

Hedge Fund Strategy Overview

Stock Picking

Q3 Performance Drivers

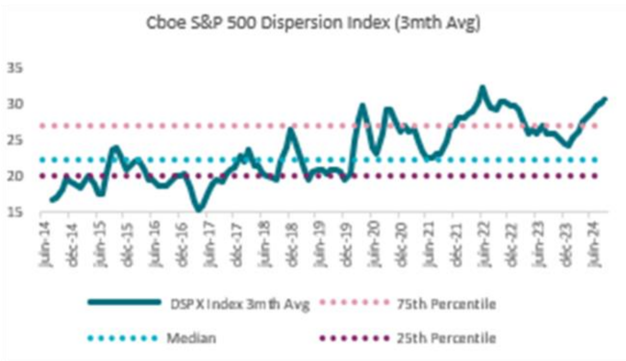
- The HFRI Equity Hedge Index rose 3.8% in Q3, bringing YTD returns to 10.3%. Meanwhile, the MSCI World index climbed 6.4% over the quarter and is up 18.9% YTD.

- Stock pickers faced a dynamic environment in Q3, shaped by significant market volatility: geopolitical uncertainties, U.S. elections, fluctuating economic data, Japan's "Black Monday", and new Chinese stimulus measures.

- Strong gains came from sector-specific trades and rotation from growth to small-cap value. The standout winners were positions in select AI energy-demand, defensive consumer staples, and industrials. However, semiconductors were volatile globally, partly due to tensions related to ongoing U.S.-China rivalry in this industry.

- Managers with exposure to Japan performed respectable overall, despite experiencing a 20% decline in the TOPIX in the first week of August.

- In September, exposures to China added significantly due to a market rally driven by economic stimulus and interest rate cuts. The CSI 300 index surged 25% in 5 days. Outperformers had long positions in data centers, e-commerce, and travel. This rebound marked a reversal after a long period of underperformance in Chinese equities.



Source Bloomberg data, CBOE, AXA IM PRIME calculation 17/10/24

Outlook

- Post-election discussions focused on renewable energy demand. Policy aside, Republican-controlled states are benefitting from renewable energy subsidies, reducing the likelihood of opposition to pro-renewable policies. Moreover, the demand for renewable energy has surged, largely due to the growth of AI-powered data centers. This trend is viewed as a positive catalyst for the sector, regardless of election results. Managers anticipate that solar companies, independent power producers, and stocks related to electrical grid expansion will likely emerge as winners. On the short side, the focus is finding companies that are on the wrong side of this secular trend and capturing alpha where overenthusiasm has lifted stocks upward without consideration for regional-related industry dynamics.

- In Financials, Regional Banks continue to look attractive as a number of banks should start to grow earnings from fixed-rate assets being replaced at current interest rate levels and deposit costs stabilizing. For long positions, the focus is owning under-earning companies that are also viewed as potential acquisition targets. For short positions, the focus is selecting overearning banks as well as banks with underpriced credit risk.

- Managers focused on China are watching for how committed the government will follow through with consumer stimulus. They appreciate that alpha opportunities will be more apparent in this new environment.

- Expectations in stock dispersion shown in the CBOE S&P 500 Dispersion Index has moved upwards above the 75th percentile, indicating wider alpha capture opportunities.

Rating: Positive

Hedge Fund Strategy Overview
Multi-Strategy

Definition

Multi-Strategy funds combine multiple investment strategies to create a diversified portfolio. Strategies tend to be managed separately and capital is allocated between them based upon the risk appetite and return target. The aim is to provide broadly uncorrelated strategies that dampen volatility.

Usually, there is a central figure or committee that oversees risk management and capital allocation, either through a discretionary decision-making process or through a model driven approach derived from correlations and quality of returns. Often, portfolio managers are deployed in silos with limited overlap between strategies, although this can vary.

The largest multi-strategies can look more like complete asset management companies, offering access to multiple return streams either on an individual or combined basis with hundreds of portfolio managers.

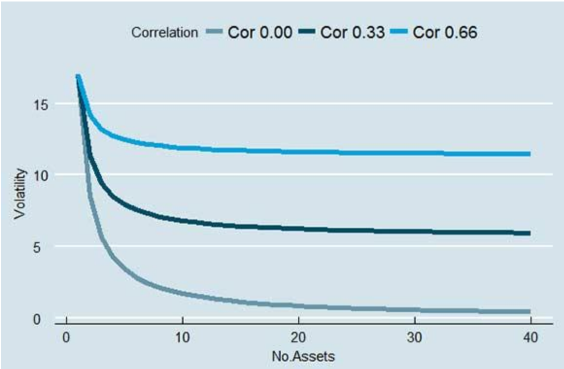
Characteristics

Diversified Returns:
Multi-strategy funds can offer a diversified return by allowing smaller managers with more niche strategies to gain access to established infrastructure. These managers may be unable to perform as stand-alone strategies but, with the processes and capital a multi-strategy fund could have access to they can get off the ground and provide a differentiated return stream for the fund as a whole.

Flexibility:
There can be a greater degree of flexibility as allocations between strategies can be manipulated more frequently based on opportunity set and performance.

Risk Management:
There is often an emphasis on centralised, robust risk management processes. Specialist risk teams will monitor the individual strategies and the portfolio as a whole and ensure that stringent guidelines are adhered to.

Investment Teams and Greater Talent Development:
Analysis of multi-strategy funds tends to pay particular attention to the internal workings of the fund and how the individual strategies work together. Rather than maintain poor performing managers, multi-strategy funds are often focused on refreshing talent to improve the quality of overall returns.



Source AXA IM PRIME illustration 01/07/24

By employing strategies that are uncorrelated, the benefits of diversification can be amplified to reduce risk.

Key Risks

Talent Retention: There is significant competition for portfolio managers within multi-manager shops.

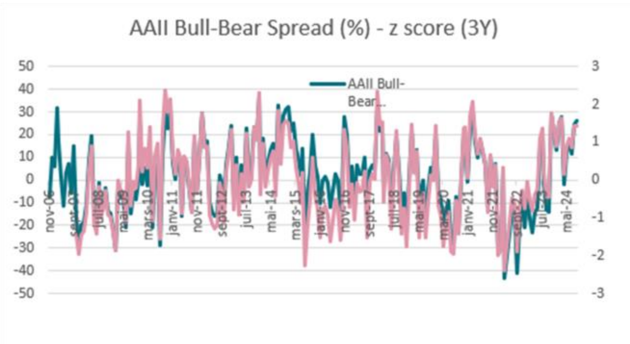
Fees: Some funds charge full pass-through costs, which can lead to very high expense ratios.

Diversification: Over-diversifying into non-core areas can be difficult, sometimes leading to muted or negative returns as new strategies bed in.

Hedge Fund Strategy Overview
Multi-Strategy

Q3 Performance Drivers

- The HFRI RV Multi-Strategy Index was up +2.3% in Q3 and +5.2% YTD
- Healthcare, Industrials and Financials equity allocations were the top performer benefitting from a declining rate environment and elevated dispersion. Event Driven was the bottom performer but still positive in merger arb.
- Commodities remains a top contributor but was volatile with long Energy positions detracting as oversupply concerns drove prices lower, while Metals was the best contributor on the back of Chinese stimulus measures. In Nat Gas, the US was the most profitable market.
- Fixed Income allocations benefited from solifd gains in bond basis arbitrage in the US.
- Discretionary Macro was mixed as managers struggled to monetize US rate cut expectations due to rates volatility.
- In Credit, Convertible strategies performed best from US convertibles repricing higher and volatility trading.
- Quantitative strategies performed strongly driven by equity strategies.



Source Bloomberg data, AXA IM PRIME calculation 17/10/24

Outlook

- Top Tier funds are annualizing at mid teen returns as they continue to attract and retain most of the talent. Second Tier firms generated most of their gains in equities but have generally found it more challenging outside of equities and a few niche strategies.
- Most Top Tier funds are closed to new capital, making it difficult to increase allocations and diversifying into second tier firms comes with its own challenges.
- Managers have tightened up their risk management ahead of the upcoming US elections.
- Equity books run much tighter in terms of risk factors.
- In Macro and Fixed Income the preferred trade continues to be Rate Steepening strategies.
- Commodity strategies is where most firms are trying to add teams and allocate more capital.
- We continue to maintain a NEUTRAL rating.

Rating : Neutral

Investment Managers

Prime

Hedge Fund Strategy Overview

Global Macro

Definition

Global Macro funds focus on macroeconomic factors, taking positions according to the changes they see in the economic environment. They tend to make their profit from early identification of market moves in either direction.

Macro investing is very different from the investment strategies applied by other hedge fund managers, as it is more an overall approach than a precise strategy. Most funds will implement a top-down view and develop a global picture of markets to take advantage of opportunities when they appear across multiple asset classes. Once they have identified an interesting trade, they will often use a bottom-up approach in order to determine the most effective way to express their view.

Macro funds can use both quantitative and qualitative approaches at any stage of the investment timeline. They analyse economic cycles, political events and a variety of other indicators, often through interaction with policy makers and economists. Whilst some funds may base their top-down view on a manager's sentiment, others could apply models to notify them when a set of factors has moved and are likely to lead to a mispricing.

Sub-Strategies:

Relative Value

Relative Value managers seek to reduce their directional exposures to asset classes and instead exploit spreads between related securities. These could include trades of bonds of the same tenure but issued by different governments or intra-curve trades, trading bonds issued by the same government but of different maturities. Equally, managers could look to capture spreads between different asset classes exposed to the same economic risks that they believe are priced differently.

Directional

Directional managers aim to have positions based on their broader assessment of the market. This requires a strong conviction and tends to come on the back of deep fundamental work to understand a multitude of potential drivers and risks. These managers tend to take longer term, structural type views and trade through noise to enhance risk/reward profiles.

Quantitative

Quantitative Macro managers use systematic processes to identify the same types of trades implemented by discretionary macro traders. These can be trend based, more like a CTA, based on factors such as momentum, carry or value, or arbitrage trades based more on price action.

Trade Example

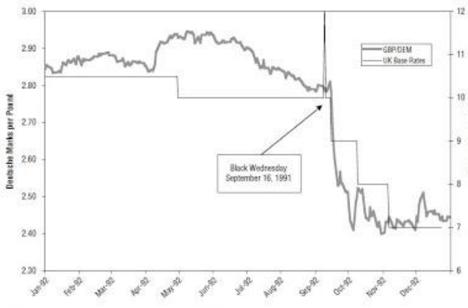


FIGURE 2.5 Sterling/Mark and UK Base Rates, 1992
Source: Bloomberg.

Source Bloomberg 1992

In this famous trade, George Soros correctly predicted that the Bank of England would be unable to maintain GBP inside the ERM, shorting the currency for a significant profit.

Key Risks

Choppy trends: managers tend to trade with momentum, if no trends establish themselves the can get whipped around.

Concentration: many managers employ concentrated positions, which increase risk.

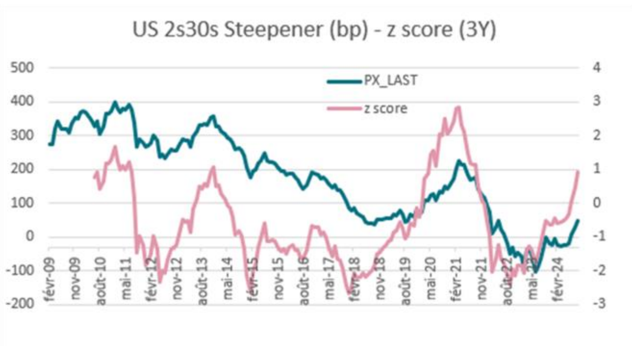
Stagnant policy: managers struggle without changes in macroeconomic conditions and policies in major global economies.

Hedge Fund Strategy Overview

Global Macro

Q3 Performance Drivers

- The HFRI Macro Total Index was down -0.8% in Q3 and +4.7% YTD.
- The surprise 50bps rate cut in the US in September lead to a repricing of rate curves which de-inverted for the 1st time since 2021. The Fed signalled that this shouldn't be extrapolated and recent strong growth data suggests the Fed could be able to engineer a soft landing of the economy. A number of wild cards remain on the horizon with the upcoming US election or wars in Ukraine and the Middle East.
- US rates steepeners was a very popular and successful trade, with a rally in the front end followed by a selloff in the back end. Managers closed some of their positions after the 50bps rate cut with some actually positioning outright short 10y rates in the US on the prospects of a normalization.
- In Europe, managers got hurt by a widening of bond spreads between France and Germany
- Long gold positions contributed positively as investors increased their exposure to non-yielding assets.
- Equities continued to prove challenging as managers had short positions in the anticipation of an economic slowdown.



Source Bloomberg data, AXA IM PRIME calculation 17/10/24

Outlook

- The upcoming US election is dominating macro managers discussions. A Trump election could prove inflationary through higher tariffs, pushing rates higher and making the job of the Fed more complicated.
- The path for normalization in the US continues and Rate steepeners remain a major theme. Long end rates could start going up more if the soft landing scenario materializes. Inflation managers are long TIPS and Breakeven on the prospect of a stronger economy and potential trump election.
- China could continue to stimulate its economy now that the authorities have shifted their focus to growth and employment. This should further boost global growth and equity markets and reinforce the possibility of a global soft landing.
- In Europe, disinflation and lower growth could continue to drag inflation breakeven and nominal yields lower. France remains an area of attention as the new government struggles to bring the deficit under control which could lead to lower growth and wider yields.
- The view in Japan remain that the BOJ could be forced to act quicker than expected and managers hold short positions in JGBs.
- Long positions in Brazilian rates and equities has been challenged in Q3 on the back of concerns about fiscal deficits but managers see the risk premium in both as too large.

Rating : Positive

Hedge Fund Strategy Overview
Managed Futures

Definition

Managed Futures funds, also known as Commodity Trading Advisors (CTAs), are a group of funds which employ a systematic, non-discretionary strategy to invest in liquid futures contracts. Strategies typically employ leverage as they invest in unfunded instruments.

The signals used in the strategies are predominantly based on momentum or trend following strategies using techniques such as weighted moving averages and Relative Strength Indicators. This strategy can take either long or short positions in a particular market and there is no inherent long or short bias.

CTAs usually invest across a broad range of markets such as Equities, Fixed Income, Commodities and FX in order to benefit from diversification. Strategies are spread across markets as well as time-frames i.e. they employ signals which can have a horizon ranging from intraday to several months.

Sub-Strategies

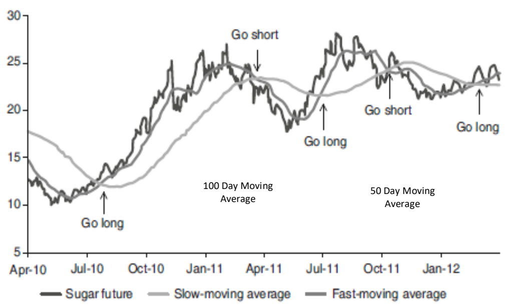
Trend Following
Mathematical models identify patterns or trends in market movements and take positions on the assumption that these trends will continue. Based on historical data, a set of criteria will be established and, once met, a position will be taken. When the criteria cease to be met, the position is closed and the information fed into the model is updated.

Moving Averages
When the short-term moving average or price of a contract crosses the bounds of a longer- term one, it can trigger a buy or sell signal. Not only does this technique identify current trends but it can construct an entry/exit strategy.

Trend Reversal
These funds look to benefit from inflection points in price trends. They tend to be shorter-term and take positions once a reversion has begun to gather momentum.

Contrarian:
Funds applying this strategy seek to identify the inflection points themselves, aiming to buy at the trough and sell at the peak. They are often betting against immediate market sentiment in order to capture the greatest difference and maintain tight stop losses.

Trade Example



Source AXA IM PRIME illustration 01/07/24

In this example, signals to buy are trigerred when the 50 day moving average price cuts the 100 day moving average from below, indicating positive price momentum. A sell signal is activated when the opposite is true.

Key Risks

Volatile Markets: If trends struggle to gain traction in markets that are frequently reverting, funds can get caught offside

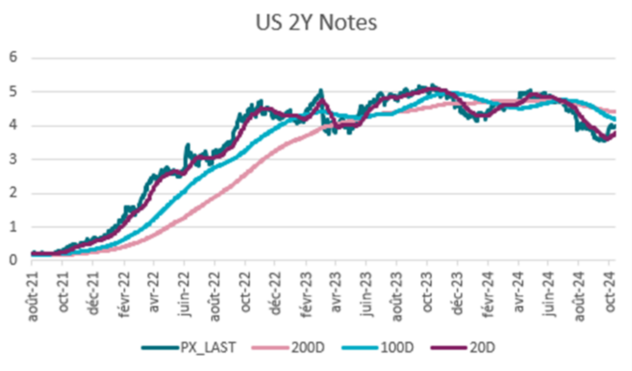
Flat Markets: Without significant enough trends for a fund to catch onto or position themselves against, CTAs will have a limited number of opportunities. In such a case, short positions can generate losses from cost of carry factors.

Crowding: Positions can get crowded by similar market participants, which can amplify reversals.

Hedge Fund Strategy Overview
Managed Futures

Q3 Performance Drivers

- The HFRI Macro Systematic Diversified was down -3.6% in Q3 and +4.4% YTD.
- Trend following was down -1.5% in Q3.
- Trend following strategies gave back significant gains in Q3 as the number of trending asset classes remained low and models got whipsawed through macro surprises and reversals.
- The unwinding of the Yen carry trade hurt Trend following strategies in Augus, which also suffered from a sudden drop in equity markets.
- After initial weakness, CTAs managed to adjust their portfolio without completely derisking it, enabling it to bounce back and retrieve part of the loss afterwards.
- Equities proved very profitable, especially in China and Hong Kong after the Chinese authorities announced significant stimulus measures to pull economic growth.
- In commodities Gold continued to rally, as the prospect of rate cuts drove investors towards hard assets. Energy proved challenging as the market oscillated between weak demand and potential escalation in the middle east.



Source Bloomberg data, AXA IM PRIME calculation 17/10/24

Outlook

- Short Term and Trend Following CTAs have had a strong start in 2024 driven by gains in Commodities and FX.
- Current signals indicate:

  Equities: have been massively bought following the 50bps cut by the Fed and the Chinese intervention

  Bonds & Credit: bullish across the board. Very bullish positioning at the front end of Rates.

  Currencies: bullish EMEA FX, GBP, EUR & CEE FX, bearish USD & Latam FX

  Commodities: bullish Metals, neutral Ags, bearish Energy
- Most CTAs employ medium-term trend following signals which means they are typically not very well equipped to deal with intra-week or even intra-day trend reversals.

Rating : Neutral

Hedge Fund Strategy Overview
Fixed Income Arbitrage

Definition

Fixed Income Arbitrage funds aim to exploit perceived mispricing amongst and between fixed income instruments and their derivatives. Often, opportunities for these relative value strategies are the result of capturing temporary anomalies in price relationships between fixed income instruments while keeping an overall market neutral exposure. This strategy typically requires large amounts of leverage in order to exploit these small pricing discrepancies.

Opportunities for Fixed Income Arbitrage trades can arise for both fundamental and technical reasons. Many investors prefer unfunded products, such as futures, as part of their hedging strategies, which can cause dislocations versus the underlying cash market, especially during times of market stress. At these times investors prefer futures due to better liquidity and lower funding costs/balance sheet impact as witnessed during the 2008/9 period.

Technical reasons that can generate opportunities for Fixed Income Arbitrage investments can be large amounts of issuance of Fixed Rate Bonds, which issuers want to swap back into floating, and can lead to potential tightening of swap spreads. Fundamental spreads exist between fixed income instruments related to the same underlying asset but with different durations or conditions, which can lead to an opportunity for those that can successfully model and hedge the risks.

Sub-strategies

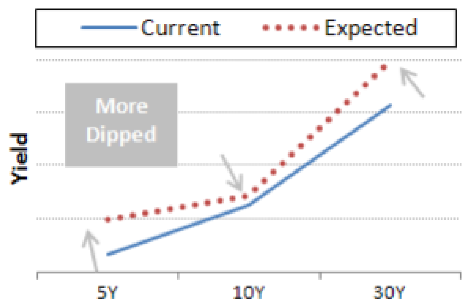
Yield Curve Arbitrage:
Funds seek arbitrage opportunities across different sections of a yield curve, i.e. where one section is overpriced relative to fundamental value and another is under-priced. Yield Curve steepeners/ flatteners/ butterflies are commonly used strategies in intra-curve arbitrage. In each case, the fund will take long and short positions where they believe the shape of the yield curve is likely to change.

Cash vs Futures Basis
In this case, funds aim to take advantage of the price discrepancies between a futures contract and the securities deliverable at expiry.

Issuance Driven Trades
Funds look to profit from distortions in the price of securities with very similar maturities based on their issuance. Predominantly this means trading the On-The-Run bond vs Off-The -Run bonds.

Swap Spread Trades:
Funds may take positions in both the fixed and floating sides of an interest rate swap with the intention of benefitting from predicted widening or tightening of the spread.

Trade Example



Source AXA IM PRIME illustration 01/07/24

The example above is a yield curve butterfly. The fund believes that the yield will increase in the 5 and 30Y sectors but decrease in the 10Y. As such they would go short the 5Y and 30Y securities (the wings) and long the 10Y (the belly).

Key Risks

Cost of Carry: Short positions in a fixed income security require the holder to pay the interest. In such a case, rising rates can make holding a short position very expensive.

Prepayment Risk: Within asset backed sub-strategies, an early return of principal means that future interest payments aren't paid to a fund.

Liquidity and Borrowability: Given that fixed income funds tend to employ a lot of leverage, lack of available balance sheet makes borrowing more expensive.

Investment Managers

Prime

Hedge Fund Strategy Overview
Fixed Income Arbitrage

Q3 Performance Drivers

- Despite significant political events like the post-DNC polling surge for the Harris/Walz ticket, the ongoing war in Ukraine and Gaza, their direct impact on rates markets was limited. Central banks remained the primary influencers.
- Adjustments in the Bank of Japan's yield curve control led to the unwinding of yen carry trades, causing a risk-off sentiment, a sell-off in Asian equity markets, and increased volatility.
- Weak Non-Farm Payroll (NFP) data and softer inflation numbers suggested a slowing economy, supporting a potential easing shift by the Federal Reserve. This led to a rally in the front end of the US Treasury curve. Federal Reserve Chairman Jerome Powell's dovish comments hinted at the removal of restrictive measures, fuelling a rally in the belly of the yield curve and longer maturities.
- Growth prospects in the Eurozone dimmed with falling industrial production in key economies, leading to lower bond yields and recession concerns whilst within the United Kingdom the Bank of England faced challenges with high inflation and economic growth risks, causing significant volatility in UK gilts.

Rates volatility unchanged over Q3 despite an uptick during the period.

Source: Bloomberg 17/10/24

Outlook

- The recent interest rate cuts by the U.S. Federal Reserve and other central banks are expected to create a favourable environment for fixed income arbitrage.
- The U.S. economy is likely to avoid a recession, with inflation moderating and the labour market remaining relatively strong. With central banks easing monetary policy, the yield curve may experience shifts that traders can exploit, and opportunities may arise from changes in the relative movements of short-term and long-term interest rates.
- While the outlook is generally positive, unexpected economic data or geopolitical events could introduce volatility, impacting arbitrage strategies. Ensuring sufficient liquidity remains crucial, especially in a dynamic interest rate environment. Traders need to be prepared for potential liquidity constraints that could affect trade execution.

Rating : Positive

Hedge Fund Strategy Overview
Convertibles Arbitrage

Definition

Convertibles Arbitrage is a relative value strategy, focused on the relationship between a convertible bond and the underlying equity. The vanilla convertible arbitrage trade is going long the convertible bond and short the underlying stock, as to the upside, the positive convexity in the bond results in the gains exceeding losses on the short stock hedge, and the opposite applies in a downside scenario as the short stock position acts as a hedge against the long convertible position. Convertible Arbitrage managers seek to provide equity participation to the upside and principal protection to the downside, whilst monetizing convexity through market equity volatility and extracting alpha from special situations and events.

Convertible arbitrageurs will generally seek CBs that exhibit high equity volatility, low conversion premium, high gamma, high liquidity and that are trading cheap versus theoretical fair value. Returns are driven by carry (the income earned from the coupon on the CB), monetization of market equity volatility through gamma trading, and new issues, which typically trade cheaply to fundamental fair value.

CBs can behave as yield instruments (bond-like in nature, sensitive to credit spreads), total return instruments (moderate yields, balanced with relatively high gamma which enables dynamic hedging of the underlying stock) and equity alternatives (high theoretical deltas, low yields – these are in the money and equity-like in nature)

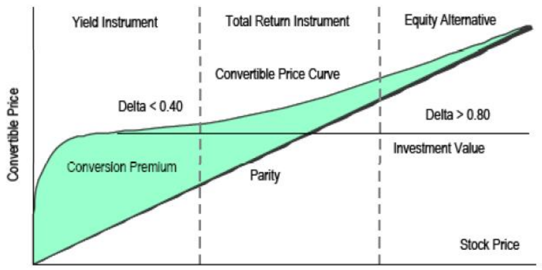
Sub-strategies

Synthetic Put Options:
The convertible is trading close to its parity value (the value of the underlying shares if investors convert). The conversion option is in the money and the conversion premium is low – this is a high delta, equity-like trade. By going long the convertible bond and short the underlying equity, you can generate P&L in a significant equity sell-off as the returns on the short stock position will exceed losses on the convertible (these losses will be capped as the bond can be sold 'put' at the bond floor).

Balanced Arbitrage
The vanilla convertible arbitrage trade. The option embedded in the convertible bond is close to its strike price, so gamma (how much the option delta changes for a given change in the underlying equity) is at its maximum. This is a long volatility position, generating P&L via gamma trading.

New Issuance Driven Trades
Funds look to profit from new issues trading cheaply to theoretical fair value, as these convertibles typically quickly revert (richen) to theoretical fair value, providing opportunity for P&L generation through holding the position over a short period.

Convertible Bond Profile



Source AXA IM PRIME illustration 01/07/24

Convertible bonds are bonds yielding regular coupon payments but can be converted into a pre-determined number of common shares at certain times over the life of the bond, usually at the discretion of the bondholder.

Key Risks

Credit: Given much of the market is non-rated, valuations may be impacted by a flight to quality.

Interest Rates: Convertibles could underperform in a rising rate environment.

Market stagnation: If volatility is suppressed and the new issuance calendar is sparse, generating returns could prove challenging.

Hedge Fund Strategy Overview

Convertibles Arbitrage

Q3 Performance Drivers

- The HFRI RV Fixed Income Convertible Arbitrage Index returned +3.3% for the quarter, bringing it to +9.0% YTD.
- Performance was boosted by a combination of higher equity markets, tighter credit spreads and lower interest rates as core Central Banks cut rates.
- The strategy also benefited from the spike in volatility in late July to early August as the Bank of Japan raised rates leading to gamma and tactical trading opportunities.
- In China the government announced the largest stimulus package since the pandemic, fuelling a sharp rally in risk assets including convertibles.
- Valuations across regions widened in July before snapping back in August, with the US now slightly rich, while Europe and Japan show some value.
- The Barclays Global Converts Hedged TR index (long-only, currency hedged) gained +5.5% over the same period bringing it to +8.0% YTD.
- Issuance came in at $25bn, down from $35bn in the prior quarter, but equivalent to $114bn annualized, tracking ahead of 2023's level of $90bn.

Convertible Valuations

Source: Jefferies 01/10/24

Outlook

- The outlook for convertible issuance remains positive against a backdrop of elevated interest rates and all-in bond yields, prompting companies to seek cheaper financing options. The convertible market now represents roughly 18% of the high yield market – up from less than 12% a few years ago – and continues to take share.
- Despite broad market volatility at the lower end of the range, key sectors such as early-stage Tech, Biotech and Real Estate continue to offer gamma trading opportunities.
- With credit spreads tight and the rally in equity markets, the focus is on hedged convertibles with fewer opportunities in stressed bonds.
- The trend lower in interest rates has allowed some managers with lighter hedges to post higher returns, with incumbent duration risk.
- Regionally, the US and Europe remain most active for issuance (after two big deals in Asia in Q2). We expect a pickup in Japanese and Asian issuance as markets recover from the vol spike and China's stimulus package kicks in. The flow of new paper offers returns from discounts, as well as technical trading as funds reposition or companies retire existing bonds.
- Distressed paper has mostly cured in portfolios, although idiosyncratic opportunities continue to present, with AMC a recent example in the US.

Rating : Positive

Hedge Fund Strategy Overview

Credit/Distressed

Definition

Credit Managers look to profit by investing in debt or debt-like instruments related to individual companies, employing some combination of directional, relative value and arbitrage strategies.

The corporate credit space is delineated through structure and rating: from Investment Grade to High Yield and Junk. Additionally, there are various structures that managers can utilize, from plain vanilla bonds through to CoCos and CLOs. Managers can specialize in one area or move actively across different strategies. These complexities can make it difficult for non-specialists to correctly understand and value individual instruments, creating investment opportunities.

Net exposure amongst managers can vary considerably, with some managers looking to strip out market direction via active shorting or arbitrage plays, whilst other managers are more focused on carry and value opportunities. Typically, a manager will take a view on a bond based on a fundamental approach that identifies mispricing, for example if earnings or debt repayments are ahead/behind schedule.

Sub-Strategies:

Credit Long Short

Managers look to build portfolios of long and short corporate credit positions based on their opinion of the fundamentals of the company and their analysis of their ability to repay their bonds. Shorts may take the form of alpha generative trades or be more pure hedges to strip out market beta

Credit Relative Value

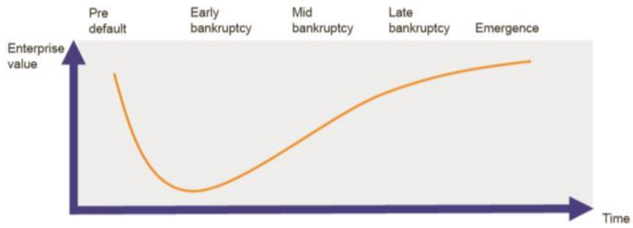
Managers look to capture the relative mispricing between two credit instruments. Trades can be expressed by going long or short cash vs synthetic bonds, senior vs subordinated debt, debt vs equity and term structure.

Distressed

Distressed debt investing involves looking at companies which are in distress or already defaulted and whose debt is trading at severely impaired level. This involves taking a view on the recovery value of the debt through a detailed understanding of the capital structure and enterprise value of the company after the restructuring process.

Later, in in the early to mid-bankruptcy stages, the fund may purchase bonds they view as cheap. In the late-emergence stages, the fund could substitute their loans for either, or a combination of, new bonds or post-reorganization equities in the restructured firm.

Trade Example



Source AXA IM PRIME illustration 01/07/24

This graph shows a typical distressed cycle for a company undergoing bankruptcy and then recovering. Managers can enter and exit the trade at various times based on their analysis of the likelihood of recovery.

Key Risks

Credit risk: This is the risk of borrower default and failing to make the required repayments. This can lead to the loss of both the principal and the intermediate coupon payments.

Cyclical factors: Depending on the stage of the business cycle, firms may struggle repaying creditors as a result of decreased demand.

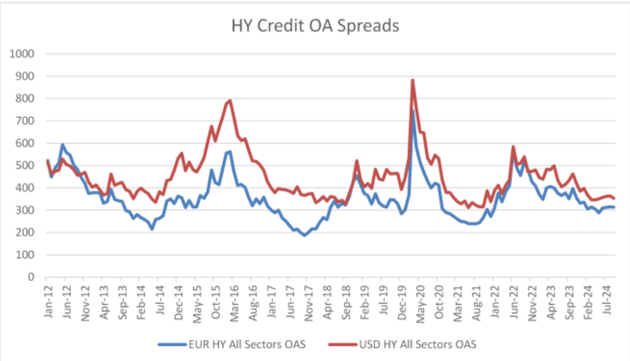
Liquidity Risk: Bonds can become illiquid in stressed markets.

Hedge Fund Strategy Overview

Credit/Distressed

Q3 Performance Drivers

- The HFRI RV: Fixed Income-Corporate Index gained +2.7% for the quarter, taking it to +7.8% YTD. The HFRI ED: Distressed / Restructuring Index rose +4.1% over the same period leaving it +8.9% YTD)
- CCC spreads diverged during the quarter: in the US they tightened -118 bps to 661bps. In Europe they widened +202 bps to 1194bps.
- Credit spreads moved closer to cyclical tights in Q3 with carry and duration driving returns. Spreads on the Markit CDX North America HY Index contracted by -15bps during the quarter to 329bps. In Europe, the iTraxx XO index tightened by -8bps to 311bps.
- The 5-year US Treasury yield declined -85bp from 4.42% to 3.57% providing a powerful tailwind for bondholders.
- The Barclays Global Corporate HY index gained +6.2% for the quarter (+9.6% YTD) as positive carry added to the move tighter in spreads. The CS Leveraged Loan Index rose +2.1% over the same period, leaving it up +6.6% YTD.
- Carry remained an attractive component of returns with all-in yields on High Yield bonds in the US tightening to 6.99% and holding at 6.84% in Europe. Levered Loan yields tightened to 8.3%. In the US the 30-year mortgage rate declined to 6.1%.



Source: Bloomberg data, AXA IM PRIME calculation 17/10/24

Outlook

- A 50bps cut by the Federal Reserve improved sentiment in Credit. Inflation moderated with CPI coming in at 2.4%, slightly above expectations but well below 6 months earlier.
- The ECB cut by 60bps in September (having cut 25bps in June) and the BoE cut 25bps in August, adding to the supportive environment for credit. With the belly of yield curves inverted in those regions, yields have been on a downward trajectory, fuelling price rises.
- The overall landscape for corporate credit remains supportive fundamentally but with tight spreads, areas of the market offering value are limited.
- Among these is the stressed segment in Europe. Default rates remain below 4%, due to weak covenants. But CCC bond spreads have widened out to 1,200bps giving rise to a meaningful universe of names including a dozen multi-billion capital structures which require reorganization.
- In the US, the default rate touched 4.6% but S&P Global forecasts this will fall to 3.75% by mid-2025. Default rates are masked by covenant-lite and Distressed Exchanges effects with the number of companies in distress higher including those.
- We expect this to generate an ample opportunity set for event driven investors particularly in the middle-market where refinancing avenues are constrained.
- In US Commercial RE the Office sector remains challenged with rising delinquencies and modifications. There are signs of fundamentals improving as rates come down.
- US Agency mortgage spreads tightened to 118bps. With lower rates, yields have come in to 6.1%. But with the Fed continuing to unwind its B/S, volatility will remain high leading to ongoing opportunities.

Rating : Positive

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